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The Swedish Election: A Social Democratic Return to Power?

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State Dept. review completed

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*EUR 82-10092
September 1982*

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An Intelligence Assessment

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**The Swedish Election:
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Key Judgments

*Information available
as of 8 September 1982
was used in this report.*

Recent polls indicate that Olof Palme's Social Democratic Party (SDP), now in its sixth year of opposition, is likely to regain power in the parliamentary election on 19 September. The impressive resources and organizational apparatus of the SDP, together with its new unity of purpose, give the party a formidable political advantage. The polls suggest that close to one out of every two Swedes will vote Social Democratic on 19 September. Even so, the recent accession of a center-right government in Denmark and the prospect of one in the Netherlands suggest that the parties of the center and right should not be counted out in Sweden.

We believe the strong showing in the polls is less a reflection of the popularity of Social Democratic programs than of growing frustration with the inability of four successive nonsocialist governments to pull the country out of its prolonged economic slump. The present government, a coalition of the Center and Liberal Parties backed by less than a third of the Swedish parliament, has been unable to counter rising unemployment, near-stagnant productivity, persistent high inflation, rapidly increasing foreign debt, and a mounting budgetary deficit. The coalition's weak parliamentary base has contributed to a sense of deadlock during the past year as Sweden's political parties have concentrated largely on positioning themselves for the election. Polls show the majority of Swedes believes that only a government which includes Social Democrats can win broad enough support for the tough measures required for an effective economic recovery program.

We believe the SDP will fall short of legislative majority. If it does, we think it will try to preserve its tactical flexibility by forming a minority government; it would seek support on an issue-by-issue basis from the Center and Liberal Parties to its right and the Communist VPK to its left.

The VPK, however, buffeted by events in Poland and last autumn's Soviet submarine incident, may not secure the 4 percent of the vote required for parliamentary representation. Should the VPK fail to cross the 4-percent threshold and the nonsocialists gain a majority, the prospects for a Social Democratic government will become more clouded. Although feuding among the nonsocialist parties—particularly between the Conservatives and the two government parties—has been intense throughout the election

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campaign, they might be able to compose their differences and form a new coalition government. The most recent polls, however, indicate that the most likely outcome—though by a narrowing margin—remains a Social Democratic government.

Such a government would assign high priority to reducing unemployment and securing wage restraint while ensuring labor market stability throughout the new parliamentary term. There would be no departure from Sweden's traditional policy of nonalignment backed by a strong defense. Despite a somewhat greater inclination to strive for independent positions, a Palme government would seek to preserve a good working relationship with the United States.

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The Swedish Election: A Social Democratic Return to Power?

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The Social Democratic Party

In 1976, growing public dissatisfaction over high taxes, rising inflation, and the perceived insensitivity of the large government bureaucracy to the needs of the average citizen ended the 44-year, virtually unbroken tenure of Sweden's Social Democrats. Three years later the Social Democrats were defeated again, falling one parliamentary seat short of the plurality needed to form a government.

The two defeats were especially painful for Olof Palme who, since inheriting the party leadership in 1969, had presided over the SDP's fall from power and a marked erosion of its parliamentary position. The defeats reflected the party's difficulty during the 1970s in maintaining internal cohesiveness while trying to preserve its reputation as the linchpin of the consensus politics of the past several decades.

The strains within the SDP resulted both from its diverse and changing composition and from its inability to reach agreement on how to meet the challenges arising from the economic slowdown which began in the early 1970s. The SDP's traditional blue-collar constituency was diminishing and losing its ability to shape party policy. Influential labor leaders were vocal in publicly expressing displeasure with the increasing domination of the party by white-collar and professional workers and blamed Palme's highly centralized style of leadership. Many of the professional politicians who were becoming more influential in party decisionmaking seemed to care more about ideological or romantic socialism than the older generation of party stalwarts.

As the largest political party in Sweden, the SDP has always had to contend with internal diversity. In party councils, SDP moderates, who predominate in the leadership, have generally supported strategies aimed at splitting the nonsocialist camp by tailoring party proposals to appeal to the middle parties threatened by the rapid rise of the Conservatives. The moderates have emphasized the need for budgetary restraint and

have favored pragmatic policies responsive to voter concern about the high cost of Sweden's system of social services.

At the other end of the Social Democratic spectrum, ideologically inspired leftwingers have pushed party leaders at party congresses to press more forcefully for greater centralization of power, more economic planning, wage-earner funds,¹ and closer monitoring of private enterprise. They have warned that unless the SDP makes clear its firm commitment to promoting the interests of Swedish workers, the party could lose votes to its more aggressive competitor on the left, the Communist VPK.

Cutting across this division between left and right in the Social Democratic Party is the "quality of life" debate generated by Sweden's environmentalist movement. Many younger SDP members are attracted by themes of the so-called green movement, which appear to clash directly with the traditional priorities of trade unionists. There are, in addition, numerous shades of opinion within the SDP on such issues as support for the peace movement, the idea of a Nordic nuclear-weapons-free zone, the need for government austerity measures, the extent to which the defense establishment should be made subject to budget cuts, where the party should seek new supporters, and whether it should consider participating in a left-center coalition government.

As Sweden's economic difficulties worsened between the 1976 and 1979 election defeats, the SDP reassessed its social and political objectives, set new

¹ This proposal, put forth by the SDP and the Swedish Confederation of Trade Unions (LO), calls for Swedish companies to plow a fixed proportion of their profits above a certain level into 24 regional funds, which would be used collectively by wage and salary workers to buy shares in larger corporations and thereby give these workers a greater influence in management of the corporate sector. Proponents of the plan argue that it would generate new, badly needed investment capital while giving workers more of a stake in helping to increase productivity.

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priorities, and revised its agenda for reform. Internal debate intensified as the party moved closer to the center of the political spectrum. Palme's recognition of the need for fiscal restraint, together with his refusal in 1979 to back organized labor's demand for a nationwide system of wage-earner investment funds, caused considerable disaffection within his own party and widened the rift between the SDP and the labor movement. Party radicals who had supported Palme because of his earlier militancy probably were put off by the new, less polemical, more flexible, and more statesmanlike image he projected in the 1979 campaign. [redacted]

For several months after the disappointing 1979 election, Palme's hold on the SDP chairmanship appeared to many outside the party to be somewhat tenuous, but by the following summer he had strengthened his position significantly. The success of the Social Democrats' platform in the March 1980 nuclear power referendum and the nationwide labor confrontation later that spring, during which nearly one-quarter of Sweden's work force was either on strike or locked out, gave the SDP further momentum and helped it to close ranks once again with the Swedish Confederation of Trade Unions (LO), which embraces nearly half the country's labor force. Since then, the impact of government austerity programs has reinforced the LO's commitment to the Social Democrats. [redacted]

Since 1979, Palme has reverted to a more confrontational approach in dealing with the nonsocialist parties—presumably in response to the new militancy within the labor movement and the heightened awareness, after the SDP's election defeat, of the need to rebuild party unity. While the harder line Palme has taken in dealing with the nonsocialist parties has helped consolidate the Social Democratic rank and file, press reports indicate that many outside the party see this shift as an obstacle to achieving the broadly based political solutions that growing numbers of Swedes consider essential for economic recovery. In the current political campaign, therefore, we believe Palme must demonstrate that he is responsive to the demands of party and labor union activists to push harder for Social Democratic goals and the enhancement of "economic democracy," but at the same time

must try to convince swing voters that he can rise above partisan interests and foster consensus solutions. For Palme more than perhaps any other Social Democratic leader, we believe this will be a formidable challenge. [redacted]

The Palme Factor

Olof Palme's popularity among Swedish voters has lagged well behind that of the SDP as a whole,² and his personality and political style have been subjected to wide debate. One Swedish journalist has described Palme as "an almost possessed" moralist—a socialist with a broad vision and an unusual sensitivity for the interplay of political and economic forces. Palme has publicly expressed his belief that Sweden, although not a major power, has a responsibility to help improve the climate for world peace by assisting nations in less fortunate social and economic circumstances. [redacted]

For Palme personally the stakes in this election look especially high. We think he must either win it or step down as party chairman. The SDP would find it hard to sustain another electoral defeat without internal upheavals and large voter defections. [redacted]

² A survey conducted last April by the SIFO polling organization revealed that only 28 percent of the electorate said they had great confidence in Olof Palme as a leader at a time when public support for the SDP stood at 48.5 percent. [redacted]

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The Other Contenders

The three principal nonsocialist parties—the Center, the Liberals, and the Conservatives—have been unable to put together a credible alternative to a Social Democratic government. Relations between the Conservatives and the other two parties have been cool since the Liberals and Centrists reached agreement on tax reform last year with the Social Democrats, causing the Conservatives to pull out of the government. Since then, the two middle parties have bound themselves so tightly to this tax compromise that they apparently would not agree to form a common nonsocialist front unless the Conservatives accepted the tax reform. [REDACTED]

The Liberal and Center Parties are probably worried by electoral trends suggesting that Swedish politics is moving increasingly toward a bipolar system dominated by the Conservative and Social Democratic Parties.³ Since this would mean their gradual eclipse, the two parties have been stressing the virtue and necessity of pragmatic “middle politics” to an electorate which recent opinion surveys suggest increasingly believes that it is precisely the bloc politics pitting right against left, socialist against nonsocialist, that frustrates the search for solutions to the country’s economic problems. [REDACTED]

The Conservative Party

Of the three nonsocialist parties, the Conservatives have fared by far the best since the 1979 election, when they took 20.3 percent of the vote; recent opinion polls show their support ranging from 23 to 27 percent. The Conservatives have established themselves most successfully in the larger cities but have also made impressive inroads in the smaller towns and rural districts. They are doing well among younger voters. [REDACTED]

The Conservatives have benefited most from the shift in mood because their party has more consistently pushed for fiscal restraint. In the late 1970s, opinion

³ The Conservatives’ share of the vote was only 11.5 percent in 1970, but authoritative surveys released during the past month indicate that they may take from 23 to 27 percent of the vote this time. Since 1970, the combined vote of the Center and Liberal Parties has fallen from 36 percent to a projected 19 to 23 percent of the vote. Compared with the other parties, the Social Democrats have held fairly steady, with recent polls giving them between 45 and 47 percent of the vote in this year’s elections. [REDACTED]

surveys began to show that Swedish voters were increasingly troubled by a tax system they believed was not working, a system of social services they thought the country could not afford, and a “growth society” which had become stagnant. The Conservatives now are touting a program to reinforce the market economy, reduce employment in the public sector, and remove obstacles preventing economic growth. They want to cut taxes on both incomes and production, freeze the level of public spending, restore Sweden’s competitiveness, and encourage private investment. [REDACTED]

The Conservatives, who know they can only hope to regain decisive political influence through the formation of a new three-party, nonsocialist government, have left the door ajar for collaboration with the Centrists and the Liberals, but just barely. They have charged the Center-Liberal government with acting too slowly in introducing needed austerity measures, and Conservative Party Chairman Ulf Adelsohn has shown surprising intransigence with regard to tax reform and several other issues obstructing nonsocialist cooperation. Adelsohn has argued publicly, for example, that the nonsocialist party securing the most votes in the general election should have the right to designate the prime minister of any nonsocialist government—a condition clearly unacceptable to the Center and Liberal Parties. Although he continues to predict a nonsocialist victory and the formation of a three-party nonsocialist government, we believe the Conservatives may be resigned to seeing the Social Democrats regain power this year and that Adelsohn may have shifted his sights to 1985. [REDACTED]

The Center Party

The Center Party is burdened with the need to defend the government’s record for the three years Party Chairman Falldin has been Prime Minister. Polls show that support for the party has fallen from 25 percent in 1976 to less than 15 percent today. Indeed, the Center Party faces the prospect of losing all the ground it has gained since the late 1960s, when it was borne forward on a powerful tide of popular dissatisfaction with big government and the negative side effects of rapid economic growth. [REDACTED]

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The Center Party has sought the decentralization of governmental authority, tax changes to aid families and the self-employed, and the development of an energy program that takes careful account of environmental concerns. The party's rejection of nuclear power in the 1970s brought it large numbers of new voters, but the March 1980 referendum on nuclear power, which approved the continued operation of a limited number of reactors, removed that issue from the political agenda. When the party chose not to leave the government despite the results of the referendum, it was abandoned by growing numbers of disillusioned antinuclear activists and environmentalists. [redacted]

The Center Party retains a strong, deeply rooted organizational network dominated by the farming element that originally founded the party and that is now attempting to steer it back into more familiar channels. Although Falldin, himself a farmer, has been criticized by rival politicians as plodding and unimaginative, his reelection to the party chairmanship by acclamation at the most recent party congress suggests that he continues to enjoy the confidence of the party faithful, who probably find his solid appearance and his plain-spoken sincerity comfortable and reassuring. At the congress, however, younger Centrist politicians called upon him to establish the party as a third force in Swedish politics, mediating between the socialism of the Social Democrats and the market orientation of the Conservatives. [redacted]

Over the past few years economic stringencies left Falldin with little room to pursue party programs for regional development, decentralization, and raising agricultural support prices, and the Center Party—and Thorbjorn Falldin personally—is being held responsible by many voters for austerity measures which are to the liking of neither farmers nor consumers. Although Falldin has said in press interviews that the Center Party is prepared to take its place in a new nonsocialist government, a number of delegates to the most recent party congress argued that what the party really needs is a respite from the responsibility of governing and a chance to regroup and consolidate its tattered forces. [redacted]

The Liberal Party

Like the Center, the Liberal Party has been suffering continuing erosion of its traditional constituency and growing uncertainty about its future. Although it had been the leading nonsocialist party during the first two postwar decades, recent opinion polls put support for the Liberals at roughly 7 to 8 percent of the electorate, suggesting that the party could lose as much as a third of the vote it received in the last election. [redacted]

Many of the Liberals' original goals⁴ have become accepted features of Swedish society, leaving the party with the alternatives of either developing a new role for itself or gradually being displaced by the larger parties. For years the Liberal Party has struggled to develop a distinct profile squarely in the center of the political spectrum, attempting to portray itself as the leading exponent of balanced solutions to Sweden's economic and social problems. Party Chairman Ola Ullsten, for example, has opposed the Social Democrats' plan for union-controlled wage-earner funds but has also spoken out against the threat posed by company owners and managers who, while quick to lambast the Social Democrats, failed to recognize the danger inherent in the increasing concentration of power among Swedish industrialists. [redacted]

Press reporting indicates that the Liberal Party has tried to keep its tactical options open—presumably in the belief that if the election is close, the party could wield the greatest influence as a powerbroker. In our view, the party's doctrinal flexibility makes a coalition with the Social Democrats as conceivable as cooperation with the Conservatives, and possibly even more tempting should Palme ultimately conclude that he needs a broader political base for tackling Sweden's economic problems. [redacted]

The Environmental Party

Polls indicate that the Environmental Party, which was founded only last fall, stands a chance of becoming the first new party to gain election to the Swedish

⁴ These goals included religious freedom, universal suffrage, social security, equality, and the broadening of parliamentary democracy. [redacted]

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parliament in more than half a century. The Environmentalists have attracted much of their following from the so-called alternative movements, notably those involved in the campaign against nuclear power, as well as from first-time voters and disenchanted Centrists, Liberals, and Social Democrats. []

The Environmental Party claims to represent a totally new movement in Swedish politics, one which would provide "shock therapy" to the established parties. Its spokesmen have declared that, rather than concentrating on forming political alliances, the Environmental Party will focus on issues, cooperating with the established parties on a case-by-case basis. The party stresses the quality of life over economic growth and favors "small-scale solutions," reduced dependence on imports, protection of the environment, decentralization of the government, more frequent recourse to popular referendums, and opposition to both nuclear power and increased defense spending. []

Recent polls show party popularity hovering around 4 percent, but Embassy reporting suggests that Environmentalist strength may have more to do with voter dissatisfaction with the established parties than with confidence in the Environmentalist program, which they argue suffers from incoherence and naivete. Although the Environmental Party might cut into the support of the Center Party and to a lesser extent the Liberal Party, much of its support seems ephemeral and likely to evaporate on election day. Environmental issues, however, will remain a contentious problem for the other parties, particularly the SDP. []

The Communists

The Left Party-Communist (VPK) is the largest and most important of Sweden's five Communist parties and the only one represented in parliament. During the past decade it has consolidated its dominance of the Swedish far left, weathering the defection of its more doctrinaire pro-Soviet elements while developing a solid base in the universities and making significant inroads in the environmental, antinuclear, peace, and women's movements. By campaigning aggressively in 1979 for a tax reform favoring low- and middle-income earners, a rent freeze and price controls, extensive job creation programs financed from higher taxes on capital gains and corporate profits, and the

reduction of defense spending, the VPK was able to increase its share of the vote to 5.6 percent. Electoral analysis shows nearly half of these votes came from voters under 30. []

The VPK is not likely to do so well in 1982. The emergence of the Environmental Party will make it harder for the VPK to hold onto its former supporters and attract new, first-time voters. Despite the VPK's attempts to distance itself from Soviet policies, we believe many VPK supporters are likely to turn elsewhere or to abstain because of events in Poland and Afghanistan as well as last year's grounding of a Soviet submarine off the Swedish coast. []

The VPK has sought a dialogue with the SDP in hope that the two parties could agree on a plan for using the anticipated leftist majority to secure passage of programs which would lower unemployment and halt inflation. These VPK overtures, however, have been undercut by recent poll figures suggesting that for the first time ever the Communists could fail to obtain parliamentary representation. []

The Election Campaign

The campaign has so far focused largely on economic issues. The Social Democrats have been reminding voters that Sweden enjoyed unprecedented economic prosperity and social equality during their 44 years in power, while arguing that the nonsocialist governments of the past six years have badly mismanaged the economy. []

The Social Democrats are pointing specifically to next year's wage negotiations, which will be difficult because real wages are falling, services have been reduced, and corporate profits are reviving. The Social Democrats argue that only a government enjoying the confidence of organized labor is likely to be able to persuade the unions to accept the moderate wage settlements that all parties agree are crucial for the economy. []

Another issue receiving a great deal of attention in the campaign is the SDP's proposal to develop a nationwide network of wage-earner investment funds next year. Palme has invited representatives from other

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**Sweden: Selected
Economic Indicators***Percent change from previous year*

	1980	1981	1982 (projected) ^a
Real GNP	1.4	-0.9	0.7
Public consumption	2.9	1.9	1.5
Exports	-2.5	-4.2	5.3
Imports	0.7	1.5	1.2
Industrial production	0.0	-3.1	1.5
Consumer prices	13.7	12.1	8.5

^a OECD (June 1981)

political parties and industry to join in shaping the funds. The SDP and the LO agreed last year on a plan that would set up 24 such regional funds with capital raised through a 1-percent levy on wages and a mandatory 20-percent contribution of company profits in excess of a 15-percent return on equity. If the proposal is implemented, the governing boards for the funds, which many believe likely to be dominated by organized labor, would gain increasing influence on the management of Sweden's major industries. Although in the campaign Palme has retreated on certain aspects of the proposal, opinion polls show he still has not overcome the growing skepticism about the funds.

Opinion polls suggest not only that the majority of Swedes are opposed to the fund proposal but that increasing numbers of SDP supporters and LO members have doubts about it. Opponents charge that the Social Democrats' plan would put so much power into the hands of unionists that it would undermine the basis of consensus politics and be a major step toward replacing Sweden's market economy with a socialist (or syndicalist) one.

The Social Democrats maintain that the funds, in addition to promoting "economic democracy," would generate badly needed investment capital for Swedish industry; this would, in turn, help to create new jobs.

They claim that, by broadening the base of ownership of Swedish industry, management would be made more responsive to popular control. The LO for its part has offered to show restraint in the next round of contract negotiations, to tolerate higher corporate profits, and to cooperate in the rationalization of troubled industries if the employers, in return, accept the establishment of wage-earner funds. The nonsocialist parties are in agreement in making opposition to the funds a major campaign issue, and we believe this is the one topic most likely to distract voter attention from their own very mixed performance in government.

The employment issue—of particular importance to Sweden's estimated 350,000 first-time voters because of the high rate of unemployment among young people ⁵—has been a main theme in the SDP's election campaign. Unemployment has risen to record levels since the Social Democrats left office and by year's end is expected to rise still higher. Although Sweden's jobless rate is still one of the lowest in Europe, opinion polls show that—in a country where full employment has been a principal objective of national policy since the mid-1930s—it is generally perceived to be unacceptably high. Official figures released on 8 September show that unemployment last month rose to 3.7 percent of the work force, and there is a growing awareness that, if it were not for subsidized training and employment, the jobless rate would be well over 5 percent. A recent survey revealed that 61 percent of Sweden's voters regard unemployment—especially among youth—as the most serious problem now facing their society.

The Social Democrats favor some selective pump-priming through subsidies to create jobs in housing construction and other sluggish industries and increased public works spending. The nonsocialists argue that a further expansion of public spending would inevitably require higher taxes which would offset any stimulative effect. They maintain that new jobs will arise if private industry can be encouraged to expand

⁵ In July, unemployment among Swedes between the ages of 16 and 24 reached 7 percent, and current figures are undoubtedly even higher in view of last month's overall increase in the unemployment rate.

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by lowering taxes and providing more investment incentives. We believe that the Social Democratic emphasis on job creation and job security will prove to be the more popular platform. []

Palme has pointedly noted that the budget deficit has increased from six billion kronor when he left office to a projected 82 billion kronor (about \$13.5 billion) this year. He says his party recognizes the need to restrain public spending but that cutbacks in social services should be kept to a minimum and the burden of economic recovery should be distributed more equitably. The SDP prescription for the economy includes such measures as larger tax cuts for low- and middle-income wage earners, a controversial new tax on capital goods,⁶ a further shift of the cost of Sweden's social insurance system from general revenues to specific taxes on employers, and an increase in the value-added tax. The shadow budget presented earlier this year by the Social Democrats included increased public investment in communications, environmental protection, construction, and energy-saving projects. Furthermore, the SDP has vowed to restore cuts in basic welfare services, even if this involves some tax increases. []

Foreign Policy and Defense

Sweden's traditional policy of nonalignment backed by a strong defense is based on a broad national consensus and has not been an election issue. Historically, public support for defense efforts has been strong across the political spectrum because those efforts are seen as necessary to maintain the credibility of Sweden's neutrality, but the prolonged debate on the plans for a new Swedish fighter aircraft demonstrated there is now more of a tendency to question whether Sweden can afford to maintain so high a level of defense spending and whether defense budget appropriations are being used effectively. The recent series of submarine sightings in Sweden's coastal waters and the growing perception of a Soviet threat, however, has made all politicians less inclined to talk about cuts in defense spending. Given its record of support for a strong defense posture during its long tenure in government, the SDP is not likely to be hurt by the issue. []

⁶ A tax on productive plant and equipment intended to reduce incentives for replacing labor with capital. []

If the Social Democrats Win

The most recent polls indicate that the most likely election outcome—although by a narrowing margin—is a Social Democratic government. We believe the SDP will probably form Sweden's next government, with Palme as prime minister. The party will probably opt for a purely Social Democratic minority government and seek majorities in parliament on an issue-by-issue basis. []

VPK Chairman Lars Werner has publicly assured journalists that, despite VPK objections to certain SDP proposals, his party would never support a no-confidence motion from the nonsocialists. Events in Poland and last autumn's Soviet submarine incident, however, may keep the VPK from winning the 4 percent required for parliamentary representation. Should that happen and the nonsocialists gain a majority, the prospects for a Social Democratic government will become more clouded. Although feuding among the nonsocialist parties—particularly between the Conservatives and the two government parties—has been intense throughout the election campaign, they might be able to compose their differences and form a new coalition government. []

In the more likely scenario—a Social Democratic government—the SDP would have to look to one or more of the middle parties informally to provide a majority if the VPK had no parliamentary representation. Indeed, Palme would probably try to induce the Liberal and Center Parties to support many of his programs even if he had Communist support in order to isolate the Conservatives and demonstrate that his party is responsive to the desire for consensus politics. []

Should the Environmental Party—but not the VPK—pass the 4-percent hurdle, the Social Democrats might have to seek a more formal partnership with either or both of the middle parties. It is likely that both the Liberal and Center Parties will remain receptive to the notion of cooperation with the Social Democrats, although they will insist that the SDP abandon its proposals for wage-earner funds and cutbacks in agricultural subsidies as conditions for

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their support. The Environmental Party would probably support many Social Democratic programs, but given its pronouncement against political alliances, an SDP government could not count solely on its support.

Budgetary Priorities and Economic Policies of an SDP Government

Even though a Social Democratic government would support a higher level of spending on public works projects in an attempt to stimulate the economy and create more jobs, we believe Social Democratic public spending plans will be held in check by a stagnant tax base, by fear of a return to double-digit inflation, and by Sweden's need to borrow abroad to finance its current account deficit. Last year Sweden borrowed some \$3 billion abroad; this year needs are put by the OECD at \$2.4 billion. Palme would not want to jeopardize the improving balance of payments and drive away foreign lenders by stimulating imports. On balance, we foresee only a modest expansion of Sweden's public sector under a Palme government.

A key aim for the Social Democrats will be to secure a moderate collective wage agreement in 1983 to last through the next parliamentary term. Kjell-Olof Feldt, the principal SDP economic policy spokesman, is optimistic that the LO would cooperate with the government in its efforts to keep labor costs down while the economy remains weak in order to help Swedish industry regain its competitive edge.

The SDP has tried to calm investor fear that wage-earner funds threaten eventual union control of management by stating that it will ask representatives of commerce and industry to participate fully in their formulation. Party leaders recognize that the funds are widely perceived as radical and that their implementation could discourage private investment and hinder economic recovery. We think both the LO and the SDP will be inclined to compromise on details of their fund proposal.

Palme's prescription for the Swedish economy, while considerably different from those of his nonsocialist opponents, has not been presented in enough detail to evaluate its probable impact with any exactness. The Social Democrats have not told the voters how fast

they will increase public spending and taxes nor when the measures will be implemented, and we suspect that the SDP internally has not yet agreed upon its program. We expect that in the early months of an SDP government some of the cuts in social services will be restored, financed by an increase in the value-added tax (VAT). We believe this move will be followed by a proposal to increase public investment along lines suggested earlier, coupled with an increase in employer social security contributions. The controversial production factor tax will probably be delayed as Palme tests the water and reviews the impact of his first steps.

The program could produce some contradictory results. Restoring the level of basic social services may save Swedes some out-of-pocket money, but raising the VAT will depress private consumption as well as initially boosting inflation. Increased public investment will put some people back to work, but taxing employers more heavily for their work force will depress employment in the private sector. An enlarged federal budget deficit and some rebound in inflation are likely, especially if Palme pushes hard to cut unemployment. The trend in foreign demand will play an important role in the efforts to cut joblessness, and immediate prospects are only modestly encouraging. The return of the SDP and the intended change in Sweden's economic course will probably cause industrialists to delay some investment decisions pending a better reading of the new government.

Defense and Security Issues

A Social Democratic government would be committed to maintaining a strong defense, but differences within the SDP over what constitutes an effective yet affordable defense are likely to continue. Many Social Democrats believe that Sweden should move gradually toward a more ground-force-oriented strategy, with less emphasis on the sophisticated technology that Sweden finds increasingly difficult to afford.

Before the Swedish parliament approved the budget for the 1982-87 defense planning cycle earlier this year, it debated at length the cost effectiveness and efficacy of the program. The divided vote on the

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government's plan to develop the JAS, a high-technology successor to the Viggen fighter aircraft, was the first major defense decision in recent Swedish history which lacked an interparty consensus. While agreeing with the nonsocialist parties on the need for a successor aircraft, the Social Democrats questioned whether the JAS was the proper solution, especially since it is destined to be the most expensive project ever undertaken by Swedish industry. [redacted]

Because the JAS project was passed on a slim margin by a minority government at a time of budget stringency, it will receive close scrutiny and will continue to be controversial. In our view, the Social Democrats are not likely to rescind the decision because of the enormous compensation the government would have to pay to the contracting companies. A Social Democratic government may, however, attempt to reopen the contract in pursuit of at least cosmetic improvements. Palme has repeatedly voiced concern about cost overruns and knows that party opposition to the project will grow if money remains tight for social programs. Rather than permit any increase in the cost of the contract, he may decide to reduce the number of planes on order. [redacted]

Foreign Policy

Over the years the basic elements of Swedish foreign policy have remained consistent, regardless of which party or coalition has held power. We have no reason to doubt that under a Social Democratic administration Sweden will maintain its posture of nonalignment in peacetime and armed neutrality in wartime. Sweden will continue to press in international forums for disarmament and detente, will support the UN and other multinational organizations, will provide aid to Third World countries, and will undertake leadership of world humanitarian causes—all policies which are consonant with the mainstream of Swedish public opinion. [redacted]

Under a Social Democratic government, foreign policy would take on somewhat different nuances; owing in part to Palme's greater international stature and visibility, it may appear more activist. With Palme and the Social Democrats in power, we think that it is very likely there would be differences in tone and an increase in the sheer quantity of Swedish comment on

US actions, especially with regard to the issues of disarmament and the social aspirations of Third World nations. Differing views on East-West relations and Social Democratic opposition to US policies in Central America may occasionally cause strains in US-Swedish relations, and Sweden would be somewhat more inclined to strive for independent positions even where US and Swedish interests coincided. [redacted]

A Palme government would be more likely, for example, to join with other nations in pressing the superpowers to limit armaments and take steps to reduce the risk of conflict. It would probably give rhetorical support to the concept of a nuclear-weapons-free zone in the Nordic area, even though Palme and others have expressed doubt that such a zone can be established in the foreseeable future. In the past Palme has endorsed the zone as a goal while underscoring the tremendous obstacles to achieving it, particularly with the continuing presence of Soviet nuclear weapons in the region. Palme would in all probability insist that the great powers be involved in providing appropriate guarantees for such a zone that will neither compromise Sweden's neutrality nor constrict its freedom of action in a crisis. [redacted]

At the same time, however, a Palme government would attach great importance to preserving a good working relationship with the United States. Although Sweden publicly proclaims a policy of "defense in all directions," Swedish defense planners view the major threat to their country as arising from a potential Warsaw Pact invasion during a larger war in Europe. Sweden's geostrategic location and its defensive capabilities—particularly its air defenses—make a valuable contribution to deterrence of the Soviet Union on Europe's northern flank. [redacted]

[redacted] This is not likely to change under Palme, who has had a role in developing these ties. [redacted]

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